

Message Text

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INFO AMEMBASSY OSLO

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SUBJECT: ANNUAL REVIEW OF NORWAY

REF: (A) OECD 4644, (B) OSLO 792, (C) EDR (74)4

1. SUMMARY. TWO MAIN ISSUES AT NORWEGIAN ANNUAL REVIEW ON FEB 27 WERE RISKS OF INFLATION FROM SPRING INCOME BARGAINING ROUND, AND PROBLEMS OF ADJUSTMENT TO INCREASED OIL REVENUES. EDRC REVIEW MAY HAVE BEEN PREMATURE. NORWEGIANS UNABLE GIVE CLEAR INDICATIONS OF POLICY MEASURES SINCE (A) SHORT TERM ECONOMIC FORECASTS FOR 1974 BEING REVISED; (B) OUTCOME OF APRIL WAGE NEGOTIATIONS AND IMPACT ON INFLATION STILL HIGHLY UNCERTAIN; AND (C) RECENT WHITE PAPER ON DOMESTIC OIL DEVELOPMENTS WILL NOT BE DISCUSSED IN PARLIAMENT UNTIL MARCH. HOWEVER, NORWEGIAN DEL DID LEAVE FIRM IMPRESSION THAT OIL ADJUSTMENT PROCESS WOULD NOT BE OCCASION FOR SIGNIFICANT OPENING UP OF NORWEGIAN ECONOMY OR SOCIETY. END SUMMARY..

2. DEMAND AND OUTPUT. NORWEGIANS UNABLE GIVE
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CLEAR EXPOSITION OF SHORT TERM PROSPECTS BECAUSE OFFICIAL

GOVERNMENT FORECASTS UNDERGOING REVIEW. NEW FIGURES WILL NOT BE AVAILABLE BEFORE REFDOC GOES TO PRESS. MAIN ELEMENTS OF DEMAND OUTLOOK ARE STRONG INVESTMENT BOOM WITH CONSUMPTION RELATIVELY WEAKER THAN PREVIOUSLY FORESEEN. NORWEGIANS MAY ORIENT POLICY TO CURBING INVESTMENT WHILE STIMULATING CONSULTION; BUT THIS ASSUMES INVESTMENT DEMAND HOLDS UP AND WAGE NEGOTIATIONS DO NOT RESULT IN EXCESSIVE AWARDS. MAIN REASON FOR STIMULATING CONSUMPTION IS TO MAINTAIN TRADITIONAL HIGH LEVEL OF EMPLOYMENT, EVEN AT RISK OF GREATER INFLATION. BOP WILL DETERIORATE FURTHER, BUT NOT SIGNIFICANTLY MORE THAN ALREADY EXPECTED (SEE PARA 7 BELOW). NORWAY NOT WORRIED REFINANCING DEFICIT IN VIEW INCREASING OIL REVENUES IN 1975.

3. NORWAY WILL NOT TAKE MAJOR POLICY DECISIONS UNTIL NEW INVESTMENT SURVEY RESULTS ARE IN, AND WAGE NEGOTIATIONS ARE CONCLUDED. CURRENT EMPHASIS OF MONETARY POLICY IS TO TIGHTEN CONTROL OVER BANK LIQUIDITY. COMMERCIAL BANK RESERVE REQUIREMENTS WILL BE RAISED 2 PERCENT ON MARCH 1.

4. PRICES AND WAGES: MAIN QUESTION MARK OVER NORWEGIAN PRICE DEVELOPMENTS IN 1974 WILL BE APRIL INCOME BARGAINING ROUND. NORWEGIAN DEL NOTED THAT UNIONS WERE DISAPPOINTED WITH RESULTS OF LAST YEAR'S NEGOTIATIONS BECAUSE ESCALATION PROVISIONS WERE INSUFFICIENT TO OFFSET RAPID RISE IN PRICES. THIS YEAR THEY ARE LOOKING FOR 100 PERCENT COMPENSATION FOR CPI RISES IN EXCESS OF 4 PERCENT, WHICH GON FEARS MIGHT LEAD TO ESCALATION CLAUSE ACTIVATION EVERY 2 TO 3 MONTHS. GON SEES POSSIBILITY OF 12 TO 16 PERCENT INCREASE IN WAGES THIS YEAR, AND POSSIBLE 15 PERCENT RISE IN CPI. EVERYTHING DEPENDS ON SPIRIT OF COOPERATION AT TRI-PARTITE NEGOTIATIONS, AND GOVERNMENT WILL SEEK TO IMPRESS WORKERS WITH SELF-DEFEATING NATURE OF LARGE CATCH-UP WAGE AND INDEXATION CLAIMS. SECRETARIAT BELIEVED THAT IMMINENT TECHNICAL COMMITTEE RECOMMENDATION WOULD BE HEEDDED, AND THAT REASONABLENESS WOULD PREVAIL.

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6. INDEXATIONC: EDRC GAVE CONSIDERABLE ATTENTION TO PRICE IMPLICATIONS OF INDEXATION. NORWEGIANS AGREED THAT INDEXATION WOULD ESCALATE INFLATIONARY PROCESS, AND THEY WILL SEEK TO HOLD LEVEL OF INDEXATION TO MINIMUM. NEVERTHELESS, SOME INDEXATION WOULD BE EQUITABLE AND TRI-PARTITE AGREEMENT WOULD BE COMBINATION OF INDEXATION, WAGE INCREASES, AND

POSSIBLY SOME KIND OF ARRANGEMENTS TO SUBSIDIZE FOOD
OR CUT TAXES. SECRETARITAT NOTED THAT 1973 PACKAGE
INVOLVED ALL OF THESE ELEMENTS PLUS REVALUATION AS
ANTI-INFLATION DEVICE. SECRETARIAT SEES PROPOSAL
FOR TAX CUTS IN 1974 AS PART OF PACKAGE DEAL TO BE
WORKED OUT IN WAGE NEGOTIATIONS.

6. ANTI-INFLATION POLICY: NORWEGIANS NOT WILLING
COMMIT SELVES ON TAX CUTS, WHICH IN ANY CASE COULD
NOT BE INTRODUCED UNTIL JANUARY 1975. IF WAGE
BARGAINING ROUND RESULTS IN LARGE WAGE INCREASES WITH
STRONG INDEXATION CLAUSE, THERE WOULD BE NO ROOM
FOR FURTHER STIMULATING ACTION. IF THERE WAS SMALL
WAGE INCREASE WITH LARGE INDEXATION, PERHAPS TAX CUTS
OR FOODSUBSIDIES COULD BE USED TO HOLD DOWN CPI LEVEL.
IF SMALL WAGE INCREASE AND MODEST INDEXATION, THEN
POLICY MIGHT BE MORE STIMULATORY.

7. BALANCE OF PAYMENTS. NORWEGIANS EXPECT SUBSTANTIAL
CURRENT ACCOUNT DEFICIT OF 6 TO 7 BILLION KRONE IN
1974. THIS WILL MAINLY BE DUE TO IMPORT PRICE RISES
AND NOT TO OIL EXPLOITATION. OIL
DEFICIT WILL TURN AROUND SOMETIME IN AUTUMN AS NORWAY
SHIFTSTO NET EXPORT POSITION. GON NOT AT ALL CON-
CERNED ABOUT CA DEFICIT IN VIEW IMMINENT PROSPECTS
OF OIL REVENUE BONANZA. NORWAY EXPECTS CONTINUED
UPWARD PRESSURE ON KRONE MAY LEAD TO FURTHER REVALUATIONS,
BUT THESE WILL NOT BE AT PREDICTABLE INTERVALS IN ORDER
TO FORESTALL SPECULATION.

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8. MEDIUM TERM PROSPECTS. NORWEGIAN PLANS FOR SMOOTHING ADJUSTMENT PROCESS TO IMMINENT OIL BOOM WERE UNDERSTANDABLY VAGUE, IN VIEW OF JUST PUBLISHED WHITEPAPER AND LACK OF PARLIAMENTARY DISCUSSION. HOWEVER, IT SEEMED CLEAR THAT NORWAY NOT PRESENTLY DISPOSED TO SEIZE EXCELLENT OPPORTUNITY FOR INTRODUCING GREATER DEGREE OPENNESS INTO ECONOMIC AND SOCIAL SYSTEM. US DEL AND CHAIRMAN BOTH RAISED QUESTION OF OPENNESS WITH RESPECT TO IMMIGRATION, CAPITAL CONTROLS AND FOREIGN DIRECT INVESTMENTS, BUT NORWEGIANS REPLIED ON BASICALLY POLITICAL GROUNDS THAT PROSPECTS FOR MAJOR CHANGE NOT ENCOURAGING.

9. IMPACT OF OIL REVENUES: NORWAY EXPECTS GRADUAL INCREASE IN LEVEL OF PUBLIC EXPENDITURES UNTIL ABOUT 6 BILLION ADDITIONAL KRONE ARE BEING USED IN 1980. MAJOR DEMAND STIMULUS WILL BE GIVEN TO SHELTERED INDUSTRIES (I.E. NOT COMPETING WITH FOREIGNERS), WHILE EXPOSED INDUSTRIES WILL BE MAIN SOURCE OF RESOURCE TRANSFER. THIS WILL BE ACHIEVED THROUGH SHIFT RELATIVE COST STRUCTURE OF TWO TYPES OF INDUSTRY, OR BY REVALUATION. NORWAY RECOGNIZES IN LIMITED OFFICIAL USE

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WHITE PAPER THAT MAJOR POLICY PROBLEM WILL BE CHANGES IN EMPLOYMENT AND HOUSING PATTERNS RESULTING FROM NECESSARY SHIFT OF 60 TO 85,000 PERSONS FROM EXPOSED TO SHELTERED SECTORS. US DEL ASKED HOW NORWEGIAN POPULATION LIKELY TO REACT TO THIS DIFFICULT ADJUSTMENT PROCESS, TO WHICH NORWEGIAN DEL REPLIED THAT FULL UNDERSTANDING OF OIL IMPACT YET TO SINK IN.
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